

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's)
Purchased Gas Adjustment for 2011-2012) **Case No. GR-2013-0253**

RESPONSE TO STAFF RECOMMENDATIONS

COMES NOW Laclede Gas Company (hereinafter "Laclede" or "Company") and, pursuant to the Commission's January 15, 2014 Order Directing Filing in this case, submits its Response to Staff Recommendations. In support thereof, Laclede states as follows:

I. Introduction

Following the end of the 2011-2012 Actual Cost Adjustment ("ACA") Period, the Staff of the Missouri Public Service Commission ("Staff") performed its audit and submitted its Memorandum and Recommendation ("Memorandum") in this case. In its filing, the Staff makes no financial adjustments, but does make a number of recommendations along with some analysis and comment. This Response addresses only the material items expressly recommended by the Staff and certain comments related thereto. It should be noted that Laclede does not necessarily agree with, or acquiesce in, other comments in the Memorandum not specifically addressed in this Response.

**II. Response to Staff's Recommendations on
Reliability and Gas Supply Analysis.**

A. Laclede's Pipeline Transportation and Storage Contracts

The Staff questions whether Laclede continues to require as much MRT storage capacity as it has previously had under contract. Staff acknowledges that Laclede has made changes to its MRT storage contract but indicates that, due to the timing of

Laclede-MRT contracts, Staff expects to review this issue in its audit of the 2012/13 and 2013/14 ACA Periods. Laclede understands that this will be an issue for Staff to review in the appropriate ACA proceedings.

B. Gas Supply Planning Request for Proposal (RFP) Process

Staff's gas supply auditors have periodically expressed concerns with Laclede's gas supply RFP process, in which Laclede first receives bids, and then works with bidders in an attempt to obtain more advantageous terms for the Company and its customers. Laclede's work with bidders is aimed at promoting diversity of suppliers and improving other contract terms, as well as price. In response to Staff inquiries, Laclede has always been able to explain what it did in post-bid negotiations and why. However, Staff has complained that Laclede's approach is difficult to audit. Rather than seek explanations of post-bid negotiations through DRs, Staff prefers that the Company maintain documentation of exceptions to the competitive bid process, which the Company has agreed to do.

C. Gas Supply Reservation Charges (Also known as Demand Charges)

On page 5-6 of the Memorandum, Staff recites that Laclede has supply agreements in which it pays reservation charges, or demand charges, for the option to purchase swing supply gas ** **. Staff acknowledges Laclede's position that this option mitigates upward natural gas price volatility.

In its Memorandum for the 2010-11 ACA Period, Staff requested that Laclede provide a study of the cost of these demand charges and the resulting savings. Laclede agreed to do so, and provided a study in November 2013 covering the most recent three

years (2010-13) and supplemented that study in February 2014 with the two prior years (2008-10).

Staff now recommends that Laclede include the **_____** option in its risk management strategy and compare the cost of this option to its other hedging strategies. Staff further recommends that Laclede explain the limits it places on the charges and volumes for this type of swing supply.

Laclede does not object to including the **_____** option in its risk management strategy, but urges caution in any comparison with other instruments such as a NYMEX option, because they address different risks. For example, the NYMEX option addresses the risk that prices will rise from one month to the next, while the **_____** option addresses the risk that prices will rise during a month. Because cold spells and price spikes may or may not occur on a monthly cycle, these options can behave very differently.

III. HEDGING

Staff addresses the subject of hedging in three sections.

A. Limited or Partial Hedging

On page 8 of the Memorandum, Staff expresses its long-held concern that partial hedges could expose Laclede and its customers to unlimited upside price risk. Laclede responds that purchases of gas are always exposed to unlimited price risk to the extent they are not subject to a hedge. On the other hand, a complete hedge tends to be more expensive for customers but gives complete protection according to its terms. A partial hedge tends to be less expensive and correspondingly provides less than complete protection, according to its terms. Together, the complete and partial hedges provide a

desired level of protection and provide for greater diversity of pricing in Laclede's portfolio.

B. Time and Price Driven Hedging

Staff recommends that Laclede continue to evaluate the adequacy of its hedge coverage to assess exposure to market prices, including an evaluation of the timing of its hedge purchases. Laclede does review its hedging strategy at least once per year and pledges to continue to do so. Laclede's hedging strategy provides for the Company to purchase hedges based on price-driven parameters and on time-driven parameters.

C. Evaluation of Hedge Program

Staff recommends that Laclede evaluate the volume of hedges it purchases for summer gas that it buys to inject in storage. Staff implies that the Company should hedge less of this gas on a going forward basis. Laclede agrees to review this issue in its next risk management evaluation.

Staff also recommends that the Company analyze the outcomes of its hedging strategy and consider, for example, whether it would be a good idea to buy some level of over-the-counter (OTC) instruments. Regarding outcomes, Laclede cautions that the hedges that were winners or losers one year may be the reverse the next year. For example, the same hedge could have expired worthless in the warm winter of 2012, had modest value in the normal winter of 2013, and paid significant dividends in the cold winter of 2014. Laclede believes that the key is to have a sound strategy that provides a reasonable basis for protecting customers from upward volatility. As discussed above, the Company does review its strategy at least annually, and has changed its strategy in response to market conditions. Regarding OTC instruments, in the past Laclede has

considered participating in the OTC market, but chose not to do so. Consistent with Staff's request, Laclede will continue to consider the proposition.

IV. CONCLUSION

Based on the matters raised in Staff's Memorandum and Laclede's responses herein, there does not appear to be any issues that require either a procedural schedule or resolution by the Commission. Laclede requests that the Commission approve the ACA balances in the Staff's Memorandum and close this case.

WHEREFORE, for the foregoing reasons, Laclede respectfully requests that the Commission accept this Response, approve the ACA balances in the Staff's Memorandum and close this case.

Respectfully submitted,

/s/ Rick Zucker

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CERTIFICATE OF SERVICE

I hereby certify that the foregoing pleading has been duly served upon the General Counsel of the Staff of the Public Service Commission and the Office of the Public Counsel by hand delivery, email, fax, or United States mail, postage prepaid, on this 14th day of February, 2014.

/s/ Marcia Spangler

Marcia Spangler